

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: MIDAMERICAN ENERGY COMPANY	DOCKET NO. RPU-01-9
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ORDER REQUIRING ADDITIONAL INFORMATION

(Issued February 19, 2002)

On November 13, 2001, MidAmerican Energy Company (MidAmerican) filed with the Utilities Board (Board) an application for determination of ratemaking principles pertaining to the proposed 540 MW Greater Des Moines Energy Center (GDMEC), a combined-cycle generating unit MidAmerican seeks to build in Polk County, Iowa. On January 2, 2002, the Board docketed the application, established a procedural schedule, and requested additional information.

Because MidAmerican proposes to begin construction in May 2002, the Board established an expedited procedural schedule. The Board is continuing to review the filing and has additional questions. Rather than wait for hearing to ask these questions, the Board will require MidAmerican to respond now so the information will be available to all parties for cross-examination at hearing. Also, due to the expedited nature of the proceedings, MidAmerican's responses will be deemed to be part of the evidentiary record of Docket No. RPU-01-9.

MidAmerican will be required to respond to the following within ten days from the date of this order:

1. Did MidAmerican consider competitively bidding the capacity and energy requirements associated with the GDMEC? If yes, provide the reasons MidAmerican decided to pursue this alternative and the results. If no, please explain why not.
2. In its planning process, has MidAmerican established a goal it would like to meet relating to fuel diversity? If yes, provide all analyses used to determine the appropriate goal for each individual fuel type. If no, explain what levels of the various fuels would be appropriate.
3. Describe what criterion other than the seven used by Dr. Graves were considered and discarded in the process of developing the reasonableness for the GDMEC.
4. It appears from the testimony that Dr. Graves' criteria are equally weighted. Is MidAmerican's position that all criteria should be equally weighted? If yes, explain why. If no, explain what criteria should be given greater weight and why.
5. In his assessment of the cost robustness of the various alternatives, Dr. Graves does not appear to have evaluated the cost of coal. However, coal is evaluated for the other six criteria used by Dr Graves. Why was coal not evaluated for cost robustness? If it had been evaluated, would it likely have been rated higher, lower, or equal to the other alternatives?
6. In his assessment criteria, Dr. Graves rates the combined cycle facility as more reliable than a simple cycle facility. Explain why a combined cycle facility is rated as more reliable than a simple cycle facility.
7. In evaluating the ability to meet customers' needs in a timely fashion, Dr. Graves rated the simple cycle and the combined cycle alternatives superior to the purchase alternatives.
 - a. Provide a detailed description of the process MidAmerican used to reach the conclusion that energy from a MidAmerican-owned simple cycle and/or combined cycle unit is significantly more likely to be available than energy from a purchased power agreement (PPA) delivered from similar units?
 - (1) Does MidAmerican have in place gas supply contracts and transportation contracts necessary to provide the required gas supplies? If so, please discuss in detail.
 - (2) Are facilities in place to deliver gas supplies to GDMEC? If so, please discuss in detail.

- b. How did MidAmerican reach the conclusion, as Dr. Graves states beginning at line 16 on page 26 of his testimony, that “no specific PPA opportunities are available to be executed.”
 - (1) Has MidAmerican issued a request for proposal (RFP) to purchase the necessary capacity and energy requirements? If so, please discuss in detail. If not, why not?
 - (2) Has MidAmerican discussed with any parties the possibility of purchasing its requirements? If so, please discuss in detail. If not, why not?
- 8. On the cost criterion for the PPA, Dr. Graves indicates beginning at line 22 on page 23 that “a seller under a PPA would have costs broadly similar to those of the GDMEC. To the extent that the seller under the PPA has higher return requirements than MidAmerican, bears additional risks under the PPA, or sacrifices flexibility because of the PPA, one would expect the minimum acceptable price for the seller under the PPA to be higher.”
 - a. What are the bases for these conclusions?
 - b. What research has MidAmerican performed into potential cost advantages or disadvantages it might have versus merchant plant developers (e.g., Calpine or Entergy). For instance:
 - (1) Economies of scale for a developer that owns several simple or combined cycle generating facilities
 - (2) Access to less expensive gas supplies
 - (3) Ability to move gas supplies among numerous other units
 - (4) More experience with operating and maintaining the units
 - (5) Quicker response to unexpected facility failures
 - (6) Lower inventory levels of parts and equipment to maintain the units and return the unit to service in the event of facility failures.
- 9. Did MidAmerican consider having a third party, such as a reputable independent power producer, design, build, and operate the GDMEC at the same site, but with MidAmerican retaining ownership? Why or why not?
- 10. In MidAmerican's process leading to its decision to build the GDMEC, what steps has it taken to deal with fuel supply cost volatility?
 - a. How much volatility in fuel supply cost is assumed?

- b. Discuss in detail all scenario analyses MidAmerican may have performed. Of the scenarios examined, how many, if any, demonstrate GDMEC to not be an economic choice to serve customers?
 - c. How much change in the price of natural gas would be required to make GDMEC an uneconomic choice?
- 11. Natural gas prices have demonstrated significant volatility in the past two years. Does MidAmerican expect this trend to continue? If no, discuss why not. If MidAmerican adds a generating facility, such as GDMEC, that uses significant amounts of natural gas, will this added fuel diversity improve the cost volatility of MidAmerican's overall fuel supply? If so, please discuss in detail. If not, why not?
- 12. Would your analysis of GDMEC change if the number of stops and starts changed significantly?
- 13. MidAmerican has announced plans to construct a 900 MW coal-fired generating plant at the Council Bluffs Energy Center (CBEC). The announced in-service date is Spring 2007. If this plant were constructed as planned, would the gas-fired combined turbine at GDMEC still be required?
- 14. Has MidAmerican actually tested and demonstrated the "black start" capability of the combustion turbines at the Pleasant Hill plant? If so, please provide the test results. If not, are there plans to test or demonstrate the "black start" capabilities? If yes, when?
- 15. Mr. Stevens in Table 2 on page 20 of his testimony provides a comparison of alternatives on six reliability factors. In ranking the purchase alternative, it appears that he only considered purchases from locations removed from the greater Des Moines metropolitan area. If the purchase alternative had considered a third party constructing the combined cycle unit at MidAmerican's site at the Greater Des Moines Energy Center, would his ranking of the purchase alternative be the same as the GDMEC? If not, explain why it would not be the same for each individual criterion.
- 16. MidAmerican witness Mr. Alexander states that the GDMEC will cost approximately \$367.5 million. What is the basis of his estimate? Is it in 2001 dollars, escalated dollars, or some other basis? What steps has MidAmerican taken to limit the cost of the facility to \$367.5 million or another amount that may be agreed to between MidAmerican and its contractor?
- 17. Explain how MidAmerican has or will analyze bids for the major components and the construction of the plant. What criteria has MidAmerican established for evaluating the various bids?

18. Describe the process that is being used to purchase the major components for GDMEC, including whether any requests for proposal have been issued for some or all of the components.
19. Provide detailed information about MidAmerican's procurement of gas supply and transportation for GDMEC, including types of gas supplies, pricing terms, storage services, length of contracts, etc.
20. What steps has MidAmerican taken to reduce price volatility associated with gas supplies? What steps has MidAmerican taken to ensure adequate supplies during the winter and the summer?
21. In this proceeding, MidAmerican is requesting predetermined rate treatment of the GDMEC requesting treatment consistent with historical utility standards. MidAmerican also proposes a return on equity (ROE) not to exceed 13.25 percent. However, in applying cost of equity estimation methods, MidAmerican uses competitive-market generators, oil companies, gas companies, and telecommunications companies. Explain why MidAmerican did not consider other electric utilities and why MidAmerican believes the risk associated with GDMEC should be compared to these other industries. Also, explain why GDMEC's ROE should be the only component treated differently from its other utility assets?
22. How does MidAmerican reconcile Dr. Graves statement beginning on line 23 of page 28 that "the seller under a PPA has higher return requirements, bears additional risks under the PPA..." with MidAmerican's request for a return based on a group of competitive market generators, oil companies, gas companies and telecommunications companies?
23. In Section 5.4 Depreciable Life, MidAmerican states in the last paragraph on page 69, "MidAmerican does not consider its depreciable life principle to be based on technical obsolescence considerations or financial considerations. Therefore, MidAmerican has provided no technological advancement studies or peer group analysis." On what factors is MidAmerican basing its depreciable life? Did MidAmerican review the depreciable life of units other than Xcel, Arizona Public Service, and the Cordova Energy Center's units mentioned by Mr. Kruempel? If yes, provide the depreciable life of all units reviewed. If no, explain why MidAmerican chose to only review the three units specified.
24. Based on Dr. Graves' explanation of the incremental costs using the illustration on page 34 of his testimony, it appears MidAmerican included total variable O&M and fuel expenses for all generating units. Please confirm if this is correct. If correct, explain why including these costs does not distort the true incremental cost of the alternatives.

25. It appears (e.g., Alexander, p. 15, lines 11-12) that MidAmerican is asking for the opportunity to earn a return on its equity investment in this proposed plant via rates set in any rate cases during the life of the plant based upon not more than 13.25 percent return on equity but is not asking for a guarantee that the allowed percent return actually be realized. Is this the correct reading of the testimony? If not, explain why.
26. Are the debt contracts tailored to the specific proposed generation project and secured solely by the proposed generation plant assets or is the debt involved in financing unsecured or has recourse to MidAmerican assets beyond the plant? Explain.
27. If generation were deregulated at a time when only part of the investment in GDMEC had been recovered by the depreciation expense, what treatment, if any, does MidAmerican believe House File 577 and this docket assure for the non-recovered investment?

IT IS THEREFORE ORDERED:

1. MidAmerican Energy Company shall provide the information outlined in the body of this order within ten days from the date of the order.
2. The responses filed shall be part of the evidentiary record in Docket No. RPU-01-9 and subject to cross-examination at hearing.

UTILITIES BOARD

/s/ Diane Munns

/s/ Mark O. Lambert

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

Dated at Des Moines, Iowa, this 19th day of February, 2002.